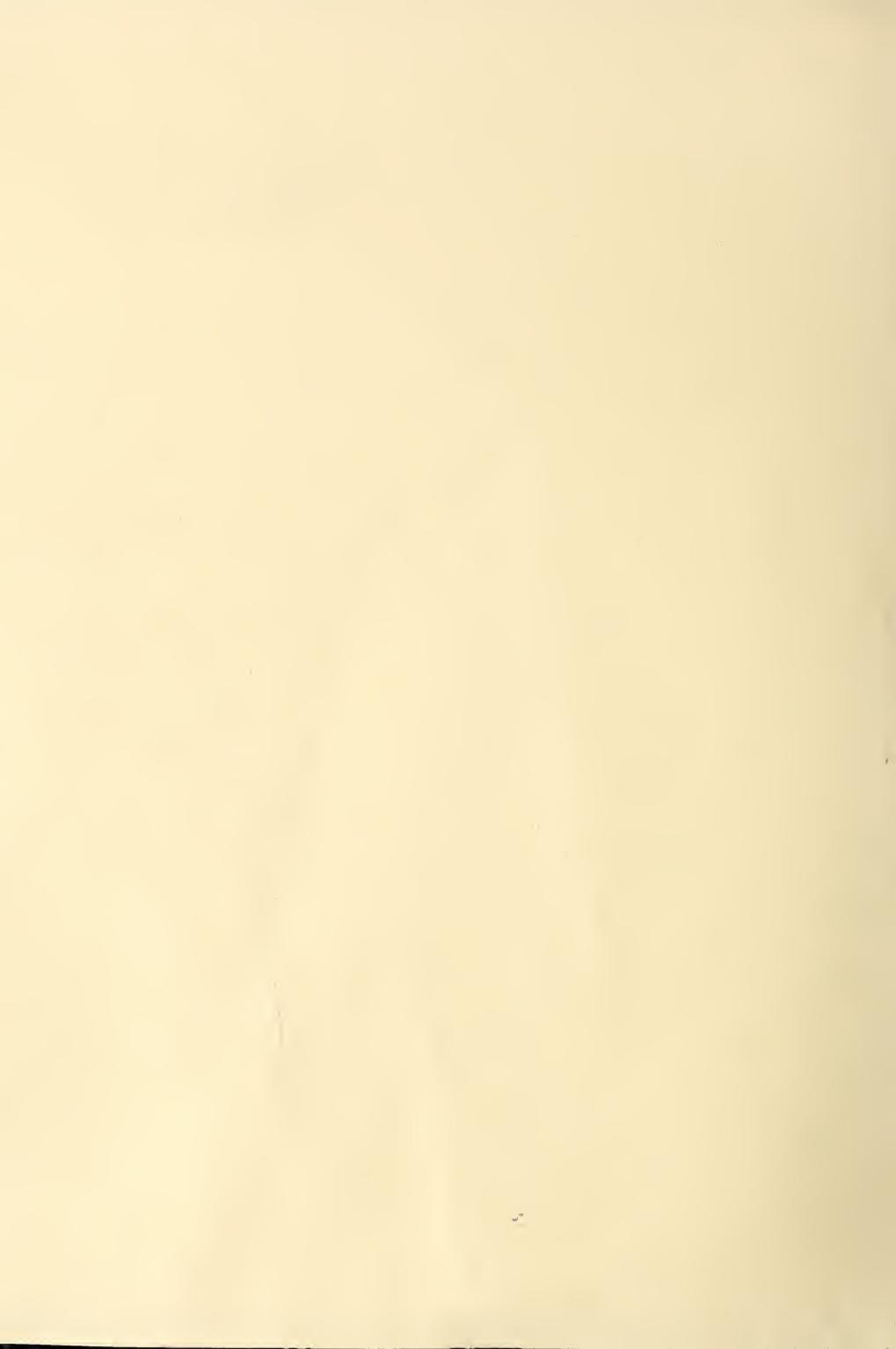


Historic, Archive Document

Do not assume content reflects current scientific knowledge, policies, or practices.



A280 344
F222

UNITED STATES
DEPARTMENT OF AGRICULTURE
LIBRARY



BOOK NUMBER A280.344
 F222
 01 (K) 1

Presented at the annual summer
conference of the
American Institute of Cooperation
Ithaca, N. Y. August 16, 1954

X
DEVELOPING A NATION-WIDE DAIRY COOPERATIVE
MERCHANDISING PROGRAM

By

Donald E. Hirsch*

A key question now confronting the management of each dairy cooperative is, "How can we sell our products to greatest advantage?" The answer lies in the development of more effective merchandising programs.

Farmers engaged in marketing their milk in processed form have a keen interest in industry-wide programs designed to increase the consumption of milk and its products. If an increase in demand occurs, but other organizations receive all the benefit from it because of brand appeal, then these farmers have gained nothing from the general promotional program. Thus it is important that farmers marketing milk in processed form also have merchandising and promotional programs that will be of direct benefit to their own cooperative businesses.

To achieve maximum effectiveness in merchandising, dairy cooperatives have to coordinate their individual programs and work together on a nation-wide basis.

Dairy cooperatives have never had a nation-wide merchandising program--do they really need one now? I believe the answer to this question is "Yes." The marketing environments in which cooperatives now operate are not the same as those of a few years ago. Tremendous changes in these environments have occurred and have brought equally important changes in merchandising methods and sales programs of marketing agencies.

Changes in Marketing Conditions and Methods

Some of the principal changes that have occurred in marketing environments, and in cooperatives' responses to these changes, are the following:

1. The marketing process is becoming increasingly complex. More intense competition provided by stronger and larger organizations, widening markets, involved pricing techniques, government regulations, the speed and distance products move, and many other factors contribute to this complexity. This calls for the assistance of specialists--lawyers, economists, market analysts, accountants, transportation experts, and others.

*Chief, Dairy Branch, Farmer Cooperative Service, U. S. Department of Agriculture, Washington, D. C.

2. Food shopping habits are changing as consumers patronize supermarkets offering a variety of products. Unless the relatively unknown brands are priced low, or are particularly well located in stores or attractively packaged, the housewife is likely to choose a national brand product because its name is familiar.

3. Large, national, dairy firms, which are not cooperatives, have continued to grow at a relatively greater rate than the rest of the industry. They have become food handlers rather than specialized dairy distributors. Their brands--carried on every item in each line of food products--have been nationally advertised for many years and are known to millions of consumers.

4. Increased emphasis on more effective sales and merchandising programs is prominent throughout the industry. Although dairy products generally are of higher and more nearly uniform character than their counter-parts of a few years ago, opportunities still exist for expanding sales of manufactured dairy products on a quality basis. High quality is no assurance of a quick sale at a reasonable price, however. Selling, advertising, promotion, and merchandising are coming to the forefront. As a result, expensive duplication of such activities is becoming greater among dairy cooperatives.

5. The potential markets for the products of each cooperative are becoming ever greater as facilities for transporting and storing products continue to improve in terms of speed, care, and refrigeration. Even rather small cooperatives no longer operate in more or less isolated communities. Much of their production must be sold on regional or national markets.

6. There are trends toward larger but fewer processing plants and organizations in both the manufactured dairy product and fluid milk industries. These are due in part to opportunities to reduce average processing costs per unit as volume increases. They are also due in part to the more effective sales job that large organizations can perform.

7. The large dairy merchandising federations are confronted by the fact that many small processing cooperatives have ceased business operations. Remaining affiliates are growing in volume but the opportunity to serve the large independent dairy processing cooperatives is more attractive than ever before.

8. The large independent dairy processing cooperatives--whose managements customarily have believed that they could net greater returns by having their own sales programs--are feeling the need for greater volumes and greater sales efforts than any one processing association can handle. They are developing almost complete lines of dairy products but progress in selling has not kept pace with progress in production.

Recent Achievements in Cooperative Merchandising

These changes indicate the need for a nation-wide dairy cooperative merchandising program but the question may be raised, "Is the development of such a program feasible?"

The development of regional dairy cooperative sales federations is well known. They demonstrate what has been accomplished. A few other illustrations may serve to show what additional accomplishments are possible on a nation-wide basis.

The great success story in nation-wide cooperative merchandising long has been that of Sunkist Foods. Almost every consumer is familiar with its brand. Consumption of oranges has increased tremendously as advertising has spurred desire for them, and as they have become readily available throughout the country. This is an effective nation-wide cooperative merchandising program.

In 1953 a group of cooperatives took over a large fruit and vegetable merchandising firm. The new organization--American National Foods--now sells fresh fruits and vegetables and operates on a national basis. It took more than 10 years to develop and complete this transaction but an encouraging example is provided to dairymen interested in joining efforts at the national level.

The Quality Chekd Dairy Products Association is an example of a recent cooperative program in dairy merchandising. Most of the member organizations are not cooperatives but the federation operates essentially along cooperative lines. This Association began on a very small scale in 1944 but in 1953 had 70 member companies in 26 states. Its expansion has been based on help with problems common to all its members, and providing a trademark and materials for use in developing promotional programs. Although it does not operate on a nation-wide basis, its accomplishments demonstrate the fact that a sound dairy service program can be developed and can expand under current conditions.

According to records of the Farmer Cooperative Service, there are 14 associations in the United States that sell finished dairy products, produced by affiliated farmers' cooperatives, to regular commercial outlets. Among them are such famous names as Land O'Lakes, Challenge, and Consolidated Dairy.

These 14 federations will have a total volume of business of about 400 million dollars in 1954. When the volumes of many large and small independent processing cooperatives are added, this merchandising total is increased to over 1 billion dollars. Thus there is a tremendous potential volume under consideration.

Alternative Dairy Merchandising Programs

There are various alternative ways in which a nation-wide dairy cooperative merchandising program can be developed. The principal ones appear to be as follows:

1. Purchase an existing organization with a national brand.
2. Agree to adopt as individual organizations an established national food brand available on a fee basis.
3. Form a new merchandising cooperative and develop a new national brand.

The first alternative--that of purchasing an existing large organization--is very attractive from the standpoint of the probable security of the business and the fact that the initial task of developing brand recognition would be completed. The principal disadvantage is the tremendous amount of capital required for such a purchase.

In testimony given before the House Committee on Agriculture, April 7, 1954, Mr. Murray D. Lincoln indicated that dairy farmers might be able to purchase either of the largest dairy corporations in much the same way that grape growers are buying the Welch Grape Juice Company.

I doubt whether this alternative is a likely one, however, without considerable financial assistance from non-dairy sources.

The second major alternative would involve an agreement to use a single brand. One of those now nationally known, and available on a fee basis, could be adopted by all of the cooperatives. Some individual cooperatives now use such brands but by going together, and selecting a single brand, the dairy associations as a group could greatly increase the volume sold under that brand. As a result, a more extensive and more effective sales program would be possible.

Such a brand would have the appeal of familiarity to many consumers. It would also have one characteristic that might be a potential disadvantage. No matter how satisfactory present arrangements might be, the trademark would not be owned by the cooperatives and difficulties relative to its use might arise in the future. The cooperatives would have to accept undesirable changes or lose completely all they had invested in promoting the brand.

Perhaps the most promising alternative is the formation of a new nation-wide merchandising cooperative and the development of a new national brand. In this instance, the nation-wide trademark could be used as (1) the sole brand for all sales, (2) the brand for sales on the national market--with local sales being made under existing brands, or (3) it could be an over-brand that would be used in combination with existing brands.

Use and Selection of a National Brand

I believe that the combination idea probably would be most palatable to boards of directors which have seen a lot of effort and money spent in developing their local brands. However, many small cooperatives--including milk distributing associations as well as those operating manufacturing plants--might find it desirable to use the national brand as the sole brand on products such as ice cream.

Use of a local brand, in addition to the national brand, thus could be optional. In order to finance the nation-wide association properly, and to permit it to have an adequate supply at all times, the national brand would be required on all packages of product that met rigid quality specifications and were not prepared under the brand of a purchaser.

These alternatives are shown graphically in figure 1. Also illustrated, as a refinement to the combination-brand plan, is the possibility of decreasing emphasis on existing brands while increasing emphasis on the new nation-wide brand over a period of several years.

In selecting a national brand it will be necessary to select a symbol. To illustrate some of the considerations involved, I have selected the trademark "Gold Star." This is not a recommended selection but serves to bring out several important points.

Such a symbol and brand name have the following merits:

1. It is an easily recognized and easily remembered picture symbol.
2. The color has a connotation of excellence. Many consumers have seen gold stars used in schools and other places to signify first place or perfect record.
3. The color also reflects the richness of dairy foods as indicated by the golden color of butterfat.
4. The word "star" has a connotation of excellence--star performer--leader.
5. While the symbol does not relate directly to the farm, it pertains to the great outdoors which is shared by both producers and consumers.
6. It can be worked into advertising messages such as "GOLD STAR leads the parade in the milky way--Nature's way to good eating and good health."

Kind of Organization Needed

What sort of organization would be required to handle the nation-wide merchandising program? The ultimate organizational structure might be something like that indicated by figure 2. For the first few years, however, a smaller organization might suffice. As demands increased for more service--and I think these demands definitely would increase--the organization could grow accordingly.

The national cooperative could take title to products, and handle non-local sales, of those cooperatives that desired such service. This service would be provided at cost. Other cooperatives--such as the present sales federations--might take no part in this marketing operation but would share in the benefits as well as the expense of development and promotion of a national brand.

After a few years have passed, and the national cooperative has become well established, it may be desirable for the present regional cooperatives to shift an ever greater part of the merchandising burden to the national cooperative. However, such a shift would be optional and no cooperative would be forced into such action in order to use the national brand and to participate in the national promotion program.

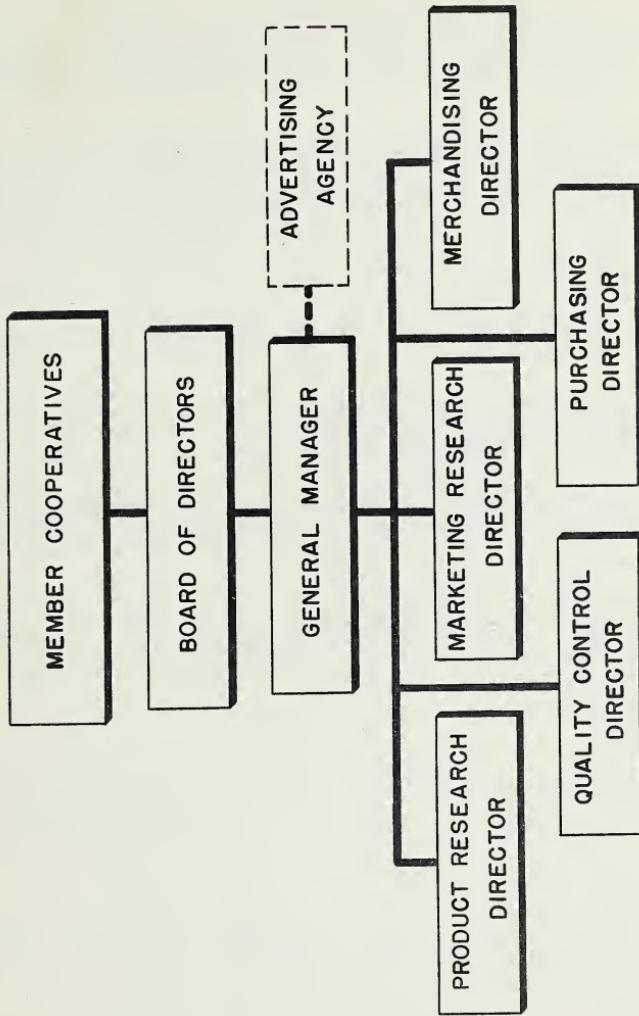
ILLUSTRATION OF POSSIBLE USE OF A NATIONAL BRAND FOR DAIRY COOPERATIVES

FIGURE 1

NATIONWIDE SYMBOL PLUS INDIVIDUAL COOPERATIVE'S SYMBOL OR TRADE BRAND	NATIONWIDE SYMBOL ONLY
<p>EVAPORATED MILK</p> <p>DARIGOLD</p> <p>CONSOLIDATED DAIRY PRODUCTS CORP.</p>	<p>EVAPORATED MILK</p> <p>GOLD STAR</p> <p>CONSOLIDATED DAIRY PRODUCTS CORP.</p>
<p>BUTTER</p> <p>LAND O'LAKES CREAMERIES, INC.</p>	<p>BUTTER</p> <p>GOLD STAR</p> <p>LAND O'LAKES CREAMERIES, INC.</p>

FIGURE 2

ORGANIZATIONAL CHART FOR A NATIONWIDE DAIRY SALES COOPERATIVE



Advantages of a National-wide Program

Some of the advantages to dairymen and existing associations of adopting a national brand and a nation-wide cooperative merchandising program are these:

1. Cooperatives could continue to enjoy the benefits of advertising their existing brands. At the same time, they would have the additional benefits arising from use of the new nationally advertised brand.
2. At present, a substantial part of the cooperative production of manufactured dairy products is packaged under the purchasers' brand names. Such a sales outlet is apt to be quite undependable because the purchaser can always shift his source of supply. If a cooperative's products were sold under a national cooperative brand, consumer preference for that brand would be established. The sales outlet then would be more stable.
3. Farmers, through their cooperatives, would own and control the merchandising organization and use of its brand name.
4. The managements of processing cooperatives would be able to spend more time on internal affairs and on the processing job. They could let others specialize in distribution.
5. Cooperatives would be able to employ top-notch specialists to serve their merchandising organization. These would include lawyers, economists, product quality experts, salesmen, market analysts, and transportation specialists.
6. Eliminating or reducing existing sales staffs could lead to large savings. Now, each large independent processing cooperative, as well as each sales federation, finds it necessary to employ a sales staff and engage in promotional programs. Duplication could be avoided in many markets.
7. It would be possible for many cooperatives to engage in foreign trade for the first time. To have foreign sales, cooperatives must not only overcome the price factor, but also must supply foreign consumers with products that meet their local standards and preferences. They also must package the products effectively and be sure that they will be handled properly during transport and at the final destination. These factors, plus the task of selling foreign buyers, call for an export sales organization. At present, only the very large cooperatives can support export sales departments. With a nation-wide merchandising program, dairy cooperatives could support a single export sales program under a national brand.
8. Since customers would be supplied with a brand indicating uniformly high quality of product, and could always be reasonably sure of having adequate supplies available, they could be expected to pay a small price premium for these products. This should more than offset the additional costs—if any—that would be incurred by cooperatives participating in the sales program.

Limitations of a Nation-Wide Program

There are, of course, limitations and problems involved in the development of a nation-wide program. Among them are the following:

1. Pride in existing programs, and fear of losing authority or prestige as a result of change, would, as always, be major barriers to the formation of a new cooperative to assume part of the functions of existing associations.
2. Some of the past expenditures and effort spent on existing brands would be lost because the packages now would carry an additional brand. It also would be necessary to continue the individual brand promotion, and a separate though smaller sales staff, while participating in the national brand program.
3. Competition would be keen from chain stores and the former dairy corporations which now carry a diversified line of foods. This competition would be serious but will exist under any circumstances and could be met more effectively by a nation-wide program than by existing programs.
4. It may not be feasible to give exclusive use of the brand name, or merchandising materials and services, to individual cooperatives within their sales territories. Possibly exclusive use could be granted to certain kinds of products or cooperatives or in certain areas. This is a problem requiring careful consideration. By sharing use of the name and program, each individual cooperative would share the benefits with others.
5. When the national cooperative engages in physical handling of product, and actual merchandising activities, some way of equalizing returns among large and small processing cooperatives might be necessary in order to provide enough inducement to the large ones to join.
6. The definition of quality standards would present problems since opinions vary on what constitutes high quality.

The potential benefits and advantages of developing a nation-wide program appear to outweigh the potential limitations and problems. The next question for dairy cooperative managements is, "Where do we go from here?"

Need for More Intensive Study

The only way to evaluate thoroughly all potential advantages and limitations of a nation-wide program is to obtain more information and then to study it carefully. Many of the major cooperatives would need to agree to cooperate in such a study and to provide necessary information. This could be done without committing any association in any way. Participation in the study would not necessarily mean participation in the nation-wide program if one were subsequently developed.

Detailed information would be needed on volumes of products manufactured by the individual cooperatives, volumes of products manufactured by affiliated cooperatives and sold for them by sales federations, quality of products, kinds and costs of packaging, geographical distribution of finished products, nature and extent of current advertising and merchandising programs, sizes and kinds of present sales staffs, sales practices, sales outlets, terms of sale, net returns f.o.b. manufacturing plants for each product, pooling plans used, and other merchandising policies and practices now in effect.

If it were found economically desirable to form a nation-wide dairy merchandising cooperative--as now appears likely--the organizational structure could be developed and necessary activities undertaken.

To be successful, the program would require intelligent, forward-looking, far-seeing, leadership. Courage would be needed to seek and to hold the long-term objectives that would make the program worthwhile. A great deal of hard work would be needed in planning, organizing, financing, and establishing the new cooperative. The need for it would have to be explained to all members--not just directors--in order that there might be understanding and support.

Establishing a nation-wide dairy cooperative merchandising program is one of the greatest problems and opportunities confronting dairymen today.



